



September 21, 2007

Mary P. Levine
Acting General Counsel/Director of Legal Affairs
Michigan State Housing Development Authority
P.O. Box 30044
Lansing, MI 48909

Re: Michigan's Draft 2008 Qualified Allocation Plan

Dear Ms. Levine:

The National Housing Trust is a national nonprofit organization formed to preserve and improve affordable multifamily homes for low- and moderate-income use. We pursue our mission through our multi-faceted expertise in the development, financial, regulatory, tax, legal, and public policy aspects of affordable housing. Over the past decade, NHT and our affiliates, NHT-Enterprise Preservation Corporation and NHT Community Development Fund, have preserved more than 21,000 affordable apartments in 41 states, leveraging more than \$1 billion in financing.

The Trust fully acknowledges and appreciates the entire set of preservation policies and programs established by the Michigan State Housing Development Authority. The comments below refer directly and specifically to MSHDA's 2008 draft QAP as it relates to the tax credit program and are in no way meant to imply our lack of appreciation for your other successful preservation programs and policies.

We appreciate the opportunity to comment on Michigan's Draft 2008 Qualified Allocation Plan. **Without knowing more about the actual scoring, the Trust is concerned about the removal of the affordable housing preservation holdback in your QAP. Without the benefit of analyzing Michigan's scoring criteria, it is unclear how preservation applicants might fare in future tax credit allocations. We urge you to make the scoring table available to the general public as soon as possible.**

Affordable Housing

Our nation faces a serious shortage of housing for low- and moderate-income individuals and families. Over the last decade, more than 15% of our affordable housing stock nationwide has been lost to market-rate conversion, gentrification, deterioration, and demolition, amounting to

National Preservation Initiative

300,000 fewer apartments and the loss of considerable public investment. **In Michigan alone, more than 12,000 HUD-assisted apartments were lost between 1995 and 2003.** Every year, as more apartments become eligible to opt-out of federal use restrictions, we lose thousands of affordable apartments to market rate conversion.

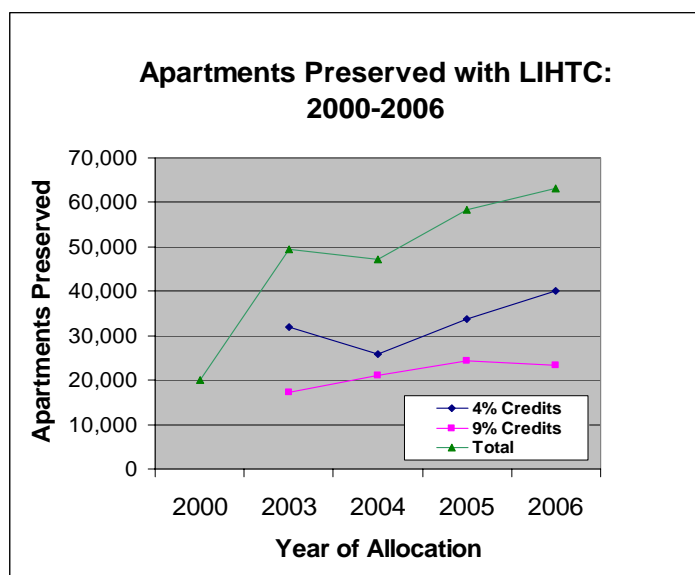
Our nation's housing market remains strong and homeownership rates are at record highs, but many Americans—particularly the poorest Americans—depend on access to affordable rental housing. Our existing multifamily housing stock provides a foundation on which millions of low-and moderate-income people support their families, build their communities, and pursue advancement.

Communities around our country face a critical choice: preserve existing affordable housing options or lose this valuable resource forever. Taking action in favor of preservation is economically efficient, socially responsible and environmentally sustainable:

- Preservation of existing housing is one-third less expensive than replacing units with new construction.
- Preservation maintains a mix of income profiles and housing options in strong markets.
- Existing housing is often located near jobs and transportation, lending preservation to “smart growth” development initiatives.
- Renovation of existing housing is inherently sustainable, conserving energy, land and other scarce resources.
- The replacement of existing affordable housing with new construction is often unrealistic due to land use restrictions, material and labor costs, NIMBYism, and other political constraints.

States around the nation have recognized that preservation is a common sense solution to America's affordable housing shortage, and have prioritized preservation and rehabilitation in their QAPs. **NHT has found that 46 state agencies set aside or prioritize competitive 9% tax credits for the preservation of existing affordable housing. Michigan has historically been a national leader with its 30% Preservation Holdback.**

This trend has preserved an increasing number of affordable apartments each year, with more than 60,000 affordable units preserved nationwide in 2006.



Preservation in Michigan

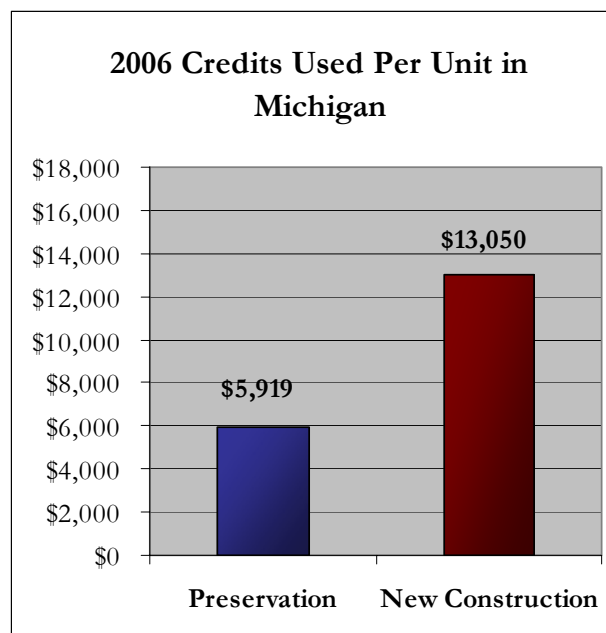
Michigan has a significant preservation dilemma: 447 project-based Section 8 properties with 36,499 assisted units will expire in Michigan before the end of FY 2012. Of these expiring contracts, 180 properties with 18,163 assisted units are owned by a for-profit owner. In general for-profit owners are more likely to opt out than nonprofit owners. **In addition, Michigan has 704 rural Section 515 properties with 9,198 affordable apartments that may be at risk due to high operating costs, low rents, and physical deterioration.** This housing is

a unique resource, providing homes for some of Michigan's lowest-income families and elderly citizens.

Preserving and rehabilitating existing housing has proven to be a cost-effective method to provide rental housing to low-income families and seniors.

Nationwide, rehabilitation projects require almost 40% fewer tax credits per units than new construction developments. This cost advantage bears out in Michigan. According to Michigan's 2006 tax credit allocations, the per unit cost of a rehabilitation proposal was approximately \$5,900, compared with the average new construction cost of more than \$13,000 per unit.

By prioritizing preservation, Michigan's QAP have provided the critical incentives necessary to prevent the loss of this indispensable affordable housing. Property owners, nonprofit organizations, developers, and local governments depend on state housing finance agencies to provide the financial and technical assistance necessary to preserve affordable housing for future generations.



Michigan's commitment to and success in preserving existing affordable housing has been significant: **from 2003 – 2006, at least 101 properties with 10,474 apartments were preserved in Michigan with 9% and 4% Tax Credits.** Michigan has succeeded in preserving affordable apartments using *both* competitive 9% tax credit program and the state's private activity bonds and 4% tax credits. **We commend you for this success but are deeply concerned that the removal of the preservation holdback in your QAP will reduce the number of affordable apartments that are preserved with 9% credits.** While many states, like Michigan, are preserving a significant amount of affordable housing with private activity bonds and 4% credits, there are many preservation deals that cannot be done—and would not have been done over the past few years in Michigan—without 9% tax credits.

Nationwide, states are creating new or increasing existing rehabilitation set-asides in their tax credit programs. Currently, 25 states include preservation set-asides in their current tax credit allocation plans. Over the past year, 3 states created new preservation set-asides in their QAPs. **A host of neighboring states currently reserve 20% or more of their 9% tax credits for preservation including Indiana, Iowa, and Ohio. Wisconsin currently leads your region with a 40% set-aside for proposals that preserve and rehabilitate affordable housing** (see attached map).

We believe that the sweeping changes proposed in this draft QAP will create an unpredictable environment in which affordable housing practitioners are unable to plan effectively. MSHDA's historic fairness and impartiality should be maintained in this process. Changes such as the substantial changes proposed should be carefully planned and groundwork for these changes should be laid and, if justified, phased in over time to accommodate the complexities of the development process.

Knowing the benefits of preservation, we strongly urge MSHDA to continue to be a national leader and maintain your successful preservation strategies, including the

preservation holdback in your QAP. We actually support an increase in the current 30% preservation holdback. In many areas in Michigan, it makes sense from both an investment as well as an economic activity point of view to focus on preserving existing affordable housing.

Preservation is Green

State and local agencies are increasingly encouraging, and in some cases requiring, that affordable housing development proposals incorporate green building practices. The *preservation of existing affordable housing is fundamentally green*: rehabilitation produces less construction waste, requires fewer new materials and consumes less energy than demolition and new construction. Using green building strategies, preservation projects can deliver significant health, environmental and financial benefits to lower income families and communities, as well as developers, property managers and capital providers. Green technologies can be harnessed to promote energy and water conservation and provide operational savings through lowered utility and maintenance costs, all while providing residents with a healthier living environment.

We suggest MSHDA include green building incentives in its scoring criteria, and consider green building practices, healthy building materials and energy efficient design features in your final QAP. In order to strike a balance between promoting green practices in new construction and green preservation, we believe separate scoring criteria should be provided for significant energy conservation improvements in rehabilitation and new construction properties. A number of states currently encourage environmentally friendly preservation projects by offering separate project scoring on green building selection criteria for preservation and rehabilitation proposals. *North Dakota's 2007 QAP* (www.ndhfa.state.nd.us) includes a weighting system by which preservation properties earn more points than new construction for each green criteria met. *Utah's 2008-09 draft QAP* (www.utahhousingcorp.org) requires new construction developments to meet higher energy efficiency thresholds than preservation deals. If preservation properties are able to meet these more efficient standards they receive bonus project points. *California's 2007 QAP and Regulations* (www.treasurer.ca.gov/CTCAC) provide dual standards for certain energy efficiency and building material selection criteria and provide some green project point categories for which only preservation proposals are eligible.

Conclusion

It is fiscally prudent for states to balance their allocation of tax credits between new construction and preservation. In an era of scarce resources, preservation makes both policy and fiscal sense. **I urge the Michigan State Housing Development Authority to continue supporting the preservation of Michigan's existing affordable housing by retaining the preservation holdback in the final 2008 QAP. I also urge you to promote green building techniques by including separate green scoring system for rehabilitation and preservation proposals.**

Thank you for the opportunity to comment on this important issue in the State of Michigan.

Sincerely,



Michael Bodaken
Executive Director

Enclosures